

REPORT ON EXAMINATION
of the
ERLANGER HEALTH PLAN TRUST
CHATTANOOGA, TN

as of
DECEMBER 31, 2003

RECEIVED

JUL 22 2004

Dept. Of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
NASHVILLE, TENNESSEE

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	one
Introduction	1
Scope of Examination	1
Company History.....	2
Growth of Company	4
Charter and Bylaws.....	4
Management and Control.....	5
Corporate Records.....	6
Fidelity Bond and Other Insurance.....	6
Territory.....	6
Plan of Operation (includes inforce by state)	7
Market Conduct Activities (Review of Insurance Products and Related Practices).....	7
Excess Loss Agreement	9
Retirement Plan and Other Employee Benefits.....	9
Loss Experience.....	9
Accounts and Records	10
Statutory Deposits.....	11
Agreements with Parent, Subsidiaries and Affiliates	11
Pecuniary Interest - Tenn. Code Ann. § 56-3-103.....	11
Commission Equity	12
Dividends or Distributions	12
Litigation.....	12
Subsequent Events.....	12
Financial Statement	13
Analysis of Changes in Financial Statement and Comments Resulting From Examination	17
Comments and Recommendations.....	18
Conclusion	20
Affidavit	21
Organizational Chart	22

Chattanooga, Tennessee
July 22, 2004

Honorable Paula A. Flowers
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

ERLANGER HEALTH PLAN TRUST
CHATTANOOGA, TENNESSEE

hereinafter and generally referred to as the HMO, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on April 26, 2004. The examination was conducted under the association plan of the NAIC by a duly authorized representative of "The Department of Commerce and Insurance", State of Tennessee.

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 1999, the date of the last previous examination, to the close of business on December 31, 2003, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2003. The financial condition of the HMO and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected

periods, and a general review was made of the HMO's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bonds and Other Insurance
- Territory
- Plan of Operation (includes inforce/premium by state)
- Market Conduct Activities (includes privacy statement)
- Excess Loss Agreement
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Agreements with Parent, Subsidiaries and Affiliates
- Pecuniary Interest - Tenn. Code Ann. § 56-3-103
- Commission Equity
- Dividends or Distributions
- Litigation
- Subsequent Events
- Financial Statement

The previous examination was conducted as of December 31, 1999 by an authorized representative of "The Department of Commerce and Insurance", State of Tennessee and was a limited scope examination. The last previous examination resulted in no change in surplus and made no recommendations. There were no Department requirements arising as a result of such examination.

COMPANY HISTORY

On August 19, 1993, the Chattanooga-Hamilton County Hospital Authority adopted the Declaration of Trust creating the Erlanger Health Plan Trust, a health maintenance organization created in order to qualify for participation in the state created TennCare program. The Hospital Authority is a governmental entity and political subdivision of the State of Tennessee but has been declared by the General Assembly of Tennessee to be a public nonprofit corporation and, as such, has also been determined by the Internal Revenue Service to be exempt from federal income tax under Section 501(a) of the

Code as being an organization described in Section 501 (c) (3) of the Code in addition to its status as a political subdivision of the State of Tennessee.

Following the expiration of the initial TennCare enrollment period, the final funding for TennCare managed care organization was insufficient for the HMO to justify its operation and the Hospital Authority declined to fund the HMO to qualify for issuance of a certificate of authority and as well declined to enter into a contract to become a TennCare Managed Care Organization.

On June 9, 1995, the Trustees adopted the Amended and Restated Erlanger Health Plan Trust making it a division of and an instrumentality of the Hospital Authority to apply for a certificate of authority and licensure as a health maintenance organization so as to be able to contract directly with selected employers, to control health care cost, improve status of enrollees and direct incremental revenues to the Hospital Authority. The Trust was amended and restated on February 15, 1996 in order to comply with the Department's request.

The HMO commenced business on June 1, 1996. It had contributed capital of \$2,006,509 received from the Hospital Authority. The HMO contracted with Assured Care, Inc. a physician independent practice association, Erlanger Medical Center, other hospitals and other facilities to provide primary and specialized services to enrollees on a fee-for-service basis subject to a withhold. The HMO contracted with the City of Chattanooga and Board of Education of Hamilton County to provide them with health care for their enrollees.

The HMO's operations were not profitable and the Hospital Authority Board of Trustees decided to withdraw from doing new business. All enforceable contracts were either canceled or not renewed during 1998. At January 1, 1999, there were no active members under contract with the HMO. The remaining claims were allowed to runoff. The HMO has maintained the trust deposits and assets associated with them as income producing investments in compliance with Tenn. Code Ann. § 56-32-212 which has allowed the HMO to maintain its certificate of authority.

At December 31, 2003, the HMO was licensed in one state, Tennessee.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the HMO since the previous examination, according to annual statements filed with "The Department of Commerce and Insurance", State of Tennessee.

<u>Date</u>	<u>Net Premium Income</u>	<u>Medical & Hospital Expenses</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Net Worth</u>
12/31/00	\$0	(\$46,724)	\$1,692,175	\$0	\$1,692,175
12/31/01	0	0	1,796,547	0	1,796,547
12/31/02	0	0	1,705,138	0	1,705,138
12/31/03	0	0	1,658,050	0	1,658,050

The negative amount of medical and hospital expenses is due to the redundant development of claim reserves as claims pay out from the business runoff. All contracts either cancelled or were not renewed during 1998.

CHARTER AND BYLAWS

Charter:

The Declaration of Trust sets forth the following as the purpose for which Erlanger Health Plan Trust is organized:

- Amended Trust is created exclusively for the purposes of establishing and operating a health maintenance organization within the meaning of Tenn. Code Ann. § 56-32, providing hospital and health related services within the scope of authority and powers established in the Enabling Acts and the 1995 Act within the meaning of Section 501 (c) (3) of the Internal Revenue Code, which are not in conflict with Tenn. Code Ann. § 56-32-201, et seq. and is to be operated in furtherance of these purposes exclusively through activities supporting or benefiting the Beneficiary Organization (the Hospital Authority).

The Amended Trust was declared to be a division and an instrumentality of the Hospital Authority with all rights and privileges under the Tennessee Governmental Tort Liability Act codified in Tenn. Code Ann. § 29-20. The Trust was created to segregate funds and operate separately from Erlanger Medical Center to allow for regulation of the Trust by "The Department of Commerce and Insurance", State of Tennessee without requiring

regulation and examination of Erlanger Medical Center.

Bylaws:

The Bylaws are such as are generally found in trusts of this type and are consistent with the Declaration of Trust. They may be altered or amended by the affirmative vote of a majority of the members of The Board of Trustees.

The Bylaws in effect at December 31, 2003 were the same as those in effect at the last previous examination.

MANAGEMENT AND CONTROL

Management:

The Declaration of Trust vests the management of the business and affairs of the HMO in a Board of Trustees of not less than five (5) nor more than eleven members, and chosen from among the trustees of the Hospital Authority. As of December 31, 2003, the Board of Trustees of the HMO was composed of the following:

Calvin Bell, M.D.	Dan Quarles, Ed. D
David Copeland	George Shuford
Lee Hilling	Bruce E. Adams
Bess Ingram, M.D.	Kenneth U. Jordan, II
Charles Longer, M.D.	Thomas A. Williams

As of December 31, 2003, the following persons held office in the Company:

Bruce E. Adams	Chairman
Kenneth U. Jordan, II	Vice Chairman
Thomas A. Williams	Secretary

The administrative and executive functions of the HMO are performed by staff provided by the Hospital Authority.

Control:

The HMO is a division and an instrumentality of the Chattanooga-Hamilton County Hospital Authority and is thereby controlled by the Hospital Authority.

A holding company organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

The HMO has been in an inactive status with no need for meetings of the Board of Trustees of the HMO. Therefore; no board meetings were held during the period of review pertinent to this examination. The Trustees of the HMO are also trustees who serve on the Board of the Chattanooga-Hamilton County Hospital Authority.

FIDELITY BOND AND OTHER INSURANCE

Officers and employees of the Hospital Authority are covered by a policy which covers Chattanooga-Hamilton County Hospital Authority dba – Erlanger Health Systems which includes the HMO. The following is a schedule of the enumerated coverages at December 31, 2003:

<u>Type of Coverage</u>	<u>Coverage Limits</u>
1. Employee Dishonesty	\$1,000,000
2. Forgery Alterations	\$1,000,000
3. Money and Securities on Premises	\$1,000,000
4. Computer Fraud	\$1,000,000

Each of the above coverages has a \$25,000 deductible.

Coverage is underwritten by Travelers Casualty and Surety Company of America, Hartford, Connecticut which is licensed in Tennessee as a "Foreign Property and Casualty Insurer".

The policy has a Commercial Crime endorsement which adds all non-compensated officers and a Welfare and Pension Plan ERISA endorsement which adds trustees and directors.

The Company's fidelity bond coverage exceeds the suggested minimum as exhibited in the NAIC Financial Condition Examiners Handbook and complies with Tenn. Code Ann. § 56-32-206 (b).

TERRITORY

As of December 31, 2003, and as of the date of this examination report, the Company was licensed to transact business in the State of Tennessee. The Certificate of Authority for that jurisdiction was reviewed.

The Company's service area in Tennessee consists of the following counties:

Hamilton

PLAN OF OPERATION

The HMO currently plans to write no premium and provide no medical care coverage. The trust deposits and assets associated with them have been maintained as income producing investments in compliance with Tenn. Code Ann. § 56-32-212 in order for the HMO to maintain its certificate of authority.

For the years during which the HMO did provide coverage to members, its plan was to service local governmental entities and their agencies in the Hamilton County area. The HMO provided primary and specialized services to enrollees on a fee for service basis through a physician independent practice association, Erlanger Medical Center, other hospitals and other facilities subject to a withhold. The contracts with City of Chattanooga and the Board of Education of Hamilton County covering their employees were either cancelled or not renewed during 1998.

Enrollment History:

<u>Year</u>	<u>Members</u>
2000	0
2001	0
2002	0
2003	0

During 2003, the Company wrote no direct premium.

<u>State</u>	<u>Amount</u>
Tennessee	\$0

MARKET CONDUCT ACTIVITIES

In accordance with the policy of "The Department of Commerce and Insurance", State of Tennessee, a market conduct review was made of the Company as of December 31, 2003 in conjunction with this examination. However; the review is a moot issue due to the fact that the HMO has no market activities and writes no business. The following items were addressed:

Filing and Approval of Policy Forms:

The HMO has no active policy forms and has not issued a policy since 1998. They have agreed to notify "The Department of Commerce and Insurance" prior to any reactivation of the HMO. The HMO is aware of the filing responsibility for various forms, agreements, etc., as well as "hold harmless" requirements for provider contracts pursuant to Tenn. Code Ann. § 56-32-205 (c).

Rates and Underwriting:

The HMO has not written any business since 1998 and does not intend to do so. No rate or underwriting manuals are maintained due to the HMO's inactive status.

Advertising:

No advertising is done by the HMO due to its inactive status.

Claims Review:

The HMO has no active or contingent claims. All claims were fully developed. The Company exhibited negative dollar (redundant) claim development during the calendar year 2000 as reserves were released after all claims and recoveries were settled.

Prompt Payment - Tenn. Code Ann. § 56-7-109:

Review of "Prompt Payment Standards" pursuant to Tenn. Code Ann. § 56-7-109 is a moot issue. All claims were fully developed and paid as of the close of the 2000 calendar year. No business has been written since 1998 and no active claims exist. The HMO is subject to Tenn. Code Ann. § 56-32-226 which references the above statute and is therefore in compliance.

Privacy Policy:

The HMO writes no business and has no enrollees; therefore, a privacy statement pursuant to Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-72 would not apply.

Policyholder Complaints:

Inquiries made to the various sections within "The Division of Insurance" indicated no concerns or complaints with the HMO during the period under examination.

EXCESS LOSS AGREEMENT

The HMO's Excess Loss Agreement #4000105 with Standard Security Life Insurance Company was terminated during 1998 due to the HMO ceasing to write business. Standard Security Life was notified pursuant to Article IX, Renewal and Termination on September 14, 1998 that Hamilton County Board of Education membership of approximately 1,782 was terminated effective September 30, 1998. Standard Security Life was additionally notified on October 29, 1998 that City of Chattanooga membership of approximately 5,190 was terminated effective December 31, 1998.

The above referenced agreement was the only excess of loss agreement in force and was no longer necessary due to the above two groups constituting the entire membership of the HMO.

Standard Security Life Insurance Company is currently licensed in Tennessee as a "Foreign Life Insurer".

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees. Any services performed on behalf of the HMO are provided by employees of the Chattanooga-Hamilton County Hospital Authority at no expense to the HMO.

LOSS EXPERIENCE

As developed from applicable amounts included in the HMO's annual statements filed with "The Department of Commerce and Insurance" for the State of Tennessee, the ratios of net losses incurred to net premiums earned for the period subject to this examination were as follows:

<u>Year</u>	<u>Losses Incurred</u>	<u>Premiums Earned</u>	<u>Loss Ratio</u>
2000	\$(63,535)	\$0	n/a%
2001	0	0	n/a%
2002	0	0	n/a%
2003	0	0	n/a%
Total	(\$63,535)	\$0	n/a%

The negative incurred loss during the 2000 year is related to the redundant

development of outstanding claim reserves as all claims were subsequently paid after the HMO ceased writing new business and cancelled all membership contracts.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2000, 2001, 2002 and 2003.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the HMO at the date of examination.

The HMO does not file a Risk Based Capital Report due to its inactive status. "The Department of Commerce and Insurance" has exempted the HMO from all regulatory filings with the exception of the annual statement per its letter dated July 11, 2003. This exemption includes the filing of an annual audit report prepared by an independent accounting firm.

The HMO had been making its exemption request on a yearly basis since it went inactive; however, in April, 2004 "The Department of Commerce and Insurance" agreed to the exemption as long as the current president was in office, based on his deposed statement dated March 19, 2004.

During the course of the examination, the HMO was in the process of mailing letters to the various parties listed as payees on outstanding checks subject to the time frame affected for unclaimed property. Remittance of amounts unclaimed will be forwarded to "The Unclaimed Property Division", State of Tennessee in compliance with Tenn. Code Ann. § 66-29.

Books and records of the Company are kept at the home office location:

979 E 3rd Street
Chattanooga, TN 37403

Additional location of books and records used in preparation of financial reporting statements:

1501 Riverside Drive
Suite 140
Chattanooga, TN 37406

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2003:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Tennessee			
FHLB 4.54%, due 8/01/2007	\$350,000	\$364,221	\$364,221
FHLB 3.58%, due 10/02/2007	375,000	376,991	376,991
FHLB 4.00%, due 11/14/2008	400,000	401,252	401,252
FHLB 4.39%, due 04/09/2009	375,000	375,236	375,236
Total general deposits held for the benefit			
of all enrollees of the HMO	<u>1,500,000</u>	<u>1,517,700</u>	<u>1,517,700</u>
Total	<u>\$1,500,000</u>	<u>\$1,517,700</u>	<u>\$1,517,700</u>

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The HMO does not meet the definition of a holding company pursuant to Tenn. Code Ann. 56-11-201 (b) (5) which specifically defines a "health maintenance organization holding company system".

No formal written agreements exist between the HMO and Chattanooga-Hamilton County Hospital Authority. Employees of the Hospital Authority perform any needed administrative functions at no expense to the HMO.

PECUNIARY INTEREST - TENN. CODE § 56-3-103

The Hospital Authority has a conflict of interest policy for its officers and directors. No conflict would exist with the HMO due to the Hospital Authority not charging any fee for the limited administration required to maintain the HMO's Certificate of Authority. No salary or fee is paid by the HMO to any officer, director or employee.

Additionally, Tenn. Code Ann. § 56-32-221 (a) states "Except as otherwise provided in this part, provisions of the insurance law, and provisions of hospital or medical service corporation laws are not applicable to any health maintenance organization granted a certificate of authority under this part".

COMMISSION EQUITY

No excess of loss agreements were in effect at December 31, 2003; therefore, no commission equity could exist in ceded unearned premium. In this scenario, there would be no ceded unearned premium.

DIVIDENDS OR DISTRIBUTIONS

No dividends or distributions were made during calendar year 2003. A transfer of capital was made to the Hospital Authority during the calendar year 2002 in the amount of \$179,832.

The HMO does not meet the definition of a holding company defined by Tenn. Code Ann. § 56-11-201 (b) (5) "health maintenance organization holding company system" and therefore, does not have to obtain approval for the transfer of capital as the distribution was made from surplus profits. For the period under examination, the HMO has maintained the required net worth and the trust deposits and assets associated with them in compliance with Tenn. Code Ann. § 56-32-212 in order for the HMO to maintain its certificate of authority.

LITIGATION

As of December 31, 2003, the Company had no pending litigation which would adversely affect the financial condition of the Company.

SUBSEQUENT EVENTS

None

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2003, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,517,700			\$1,517,700
Cash and short-term investments	<u>140,350</u>			<u>140,350</u>
Totals	<u>\$1,658,050</u>	<u> </u>	<u> </u>	<u>\$1,658,050</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Claims unpaid	\$0
Unpaid claim adjustment expenses	0
Aggregate policy reserves	0
Aggregate claim reserves	0
General expenses due or accrued	0
Total Liabilities	0
Common capital stock	\$0
Gross paid in and contributed surplus	3,406,832
Unassigned funds (surplus)	(1,748,782)
Total capital and surplus	1,658,050
Totals	<u>\$1,658,050</u>

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member months	0	0
Net premium income	\$0	<u>\$0</u>
Total revenues	0	0
<u>MEDICAL AND HOSPITAL</u>		
Hospital/medical benefits	0	0
Other professional services	0	0
Outside referrals	0	0
Emergency room and out of area	0	0
Aggregate write-ins for other medical and hospital	<u>0</u>	<u>0</u>
Subtotal	0	0
<u>LESS</u>		
Net reinsurance recoveries	0	0
Total medical and hospital	0	0
Claims adjustment expenses	0	0
General administrative expenses	0	777
Increase in reserves for accident and health contracts	<u>0</u>	<u>0</u>
Total underwriting deductions	0	777
Total underwriting gain or loss		(777)
Net investment income earned		(44,949)
Net realized capital gains or losses		<u>(1,363)</u>
Net investment gains or losses		(46,312)
Net income or (loss) before income taxes		(47,089)
Federal income taxes incurred		<u>0</u>
Net income		<u>\$(47,089)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31 prior year		\$1,705,138
Net income	\$(47,089)	
Change in net deferred income tax	0	
Change in non-admitted assets	0	
Cumulative effect of changes in accounting principles	<u>0</u>	
Change in surplus as regards policyholders for the year		<u>(47,089)</u>
Surplus as regards policyholders, December 31 current year		<u>\$1,658,050</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION**

Surplus as regards policyholders December 31	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Previous Year	<u>\$1,549,034</u>	<u>\$1,692,175</u>	<u>\$1,796,547</u>	<u>\$1,705,138</u>
Net Income	143,140	104,372	88,423	(47,089)
Change in net deferred income tax	0	0	0	0
Change in nonadmitted assets	0	0	0	0
Transferred from capital	0	0	(179,832)	0
Cumulative effect of changes in accounting principles	0	0	0	0
Rounding	0	0	0	1
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Surplus as regards to policyholders December 31				
Current Year	<u>\$1,692,175</u>	<u>\$1,796,547</u>	<u>\$1,705,138</u>	<u>\$1,658,050</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS
RESULTING FROM EXAMINATION**

None

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES
IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM
EXAMINATION" AS THEY AFFECT SURPLUS**

None

COMMENTS AND RECOMMENDATIONS

Comments:

- The HMO posted negative investment income earned for the 2003 calendar year due to the fact that bonds in their portfolio had call provisions exercised in reaction to the current interest rate environment. The bonds were mortgaged backed securities which are subject to prepayment provisions when real estate properties are sold or refinanced. This scenario led to the HMO posting a loss as of December 31, 2003. The situation will reverse in the subsequent year since investments were replaced by new income producing securities. The income or loss amounts are the "Net Transaction Activity" reported on the Custodian Account Summary prepared by First Tennessee Bank.
- "The Department of Commerce and Insurance" notified the HMO via certified letter dated May 6, 2004 of some minor exceptions in the 2003 annual statement. The major two items were the fact that Schedule E was not completed listing the four (4) bonds pledged as trust deposits with "The Department of Commerce and Insurance", State of Tennessee and the Risk Based Capital was not computed and listed on the statement even though the HMO had been exempted from filing the formal "Risk Based Capital Report". The HMO reported the bonds pledged on the aggregate write-in asset line instead of Schedule E. "The Division of Insurance" Financial Affairs Section/Analytical Unit asked that the HMO provide a response within thirty (30) days of receipt of the letter. The HMO was instructed per the referenced letter to compute Risk Based Capital on future financial statements. On May 14, 2004, the Company answered the above referenced letter and filed an amended Schedule E as requested. The other items did not require response at this time only compliance with future filings.

Recommendations:

- At 12/31/2003, the Investment Management and Safekeeping Agreement with First Tennessee Bank dated March 29, 1996 under which cash equivalents (Fidelity Government Portfolio) are held in the name of the HMO did not contain the language as stipulated in Tenn. Comp. R. & Reg. 0780-1-46.04 as follows:

"An insurance company shall require – in addition to any other provisions – that such custodial agreement provide a standard of responsibility on the part of the custodian which shall not be less than the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee"

The referenced investment only amounted to \$58,876.59 at December 31, 2003; however, it is recommended that the HMO and the Bank amend the Safekeeping

Agreement to comply with the above referenced regulation in the event that the HMO wishes to continue to admit this asset in the future. The HMO's net worth is in compliance with Tenn. Code Ann. § 56-32-212 irrespective of said investment.


CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Erlanger Health Plan Trust of Chattanooga, Tennessee.

In such manner, it was determined that, as of December 31, 2003, the HMO had admitted assets of \$1,658,050 and liabilities, exclusive of capital, of \$0. Thus, there existed for the additional protection of the policyholders/enrollees, the amount of \$1,658,050 in the form of gross paid-in and contributed surplus and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the HMO extended during the course of the examination is hereby acknowledged.

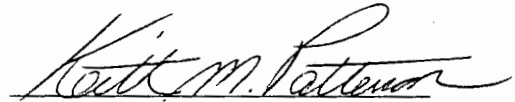
Respectfully submitted,



Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Erlanger Health Plan Trust dated July 22, 2004, and made as of December 31, 2003, on behalf of "The Department of Commerce and Insurance", State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 22nd day of

July, 2004

Notary Martha Lott

County Davidson

State Tennessee

Commission Expires 9-30-06

ORGANIZATIONAL CHART

